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SUBJECT: HISTADRUT THREATENS NATIONAL STRIKE OVER REPEAL OF TAX EXEMPTION

¶1. Summary: The Israel national labor federation Histadrut has threatened a national strike to begin on June 30 if Finance Minister Ronnie Bar-On does not rescind his proposal to cut tax exemptions for long-term savings plans for training programs. Previous finance ministers have attempted to remove the exemption, but backed down in the face of labor and government opposition. The media has quoted opposition critics as calling the Bar-On proposal "election economics." Histadrut head Ofer Eini criticized the Ministry of Finance (MOF) plan to remove the tax exemption while at the same time reducing income taxes for individuals and companies. Histadrut contacts are divided as to the likelihood of a strike, but agree that if Bar-On stands firm on removing the exemption, there will be a national strike starting June 30. End Summary.

¶2. The Israel national labor federation Histadrut has threatened a national strike to begin on June 30 if Finance Minister Ronnie Bar-On does not rescind his proposal to abolish tax exemptions on long-term savings plans for vocational training programs. The move was announced along with tax cuts for businesses and individuals that would be phased in over a seven-year period beginning in 2009. The income tax exemption, which is available to the private sector as well as the public sector, allows employers to contribute up to 7.5 per cent of an employee's income and the employee to contribute up to 2.5 percent of their income - tax free for both contributions - into a fund that was designed for training costs but in now often used for home improvement, vacations, and the like. The media reported that opposition Knesset members accused the Finance Minister of "election economics," a reference to rampant speculation on a possible dissolution of the government and new elections. Meretz leader Haim Oron, one of the most respected and knowledgeable figures in the Knesset on financial matters, was quoted as saying that Bar-On was "making sure that the haves have more and the have-nots have even less," a complaint echoed by Labor MK Shelly Yachimovich who reportedly said that Bar-On's decision would deepen the gaps between rich and poor. Bar-On was quoted as calling the new policies "the opposite of election economics" and in the past has railed against "irresponsible" and "populist" legislation.

¶3. This is not the first time that MOF has attempted to remove the tax exemption. Benjamin Netanyahu was one of the previous finance ministers to try, and, like all others, failed in the face of strong opposition. One contact theorized that the tax exemptions actually benefit a number of high rollers more than the rank and file union members, and that these private sector individuals are more important targets to the MOF than blue collar participants in the program. But the blue collar participants bring organized labor into the fight, and to date no Finance Minister has been able to overcome that roadblock.

¶4. Contacts at Histadrut were divided over the likelihood of a strike. One contact called the conflict more a case of "muscle flexing" than anything else, and said it would be in

nobody's interests to have a national strike now with all the political turmoil (surrounding Prime Minister Olmert and possible elections). He noted that previous finance ministers have threatened to remove the tax exemption but had always backed down, and that while current Finance Minister is a "tough nut", in this case he is "barking up the wrong tree." When contacted again a few days later, following continuing media reports on a looming walkout, the Histadrut insider maintained that a full blown national strike was still doubtful. According to him, Shraga Brosh, head of the manufacturer's association, is against Bar-On's move, and so are most of the GOI ministers. (Brosh has reportedly formed a close association with Eini and often backs him.) The contact maintains that while Brosh and the ministers think the removal of the exemption is a step in the right tax-reform direction, they think it is not worth the trouble it would bring at this time, especially as Bar-On went about it without prior union consultation. Another Histadrut contact, however, called a national strike likely, and said it would be carried out on June 30th unless Bar-On withdraws his suggestion to abolish the tax exemptions. This contact noted that there are no negotiations at present between the MOF and Histadrut.

¶5. Comment: The media is hyping the possibility of a strike. The June 17 edition of the Jerusalem Post highlighted Eini's announcement that day approving a decision to hold a general strike on June 30. Eini was also quoted as saying that he instructed Histadrut to begin preparations for the strike by the beginning of the following week. Strike "preparations" are common in Israel, however. The big question is whether Bar-On will stick to his guns or not. Both Histadrut contacts agreed that if Bar-On bucks history and stays the course on his proposed reforms, there will be a national

strike. Given historical precedence, it seems likely that Bar-On will yield, or at least that some accommodation will be reached. If Bar-On stands firm, however, the ball will be in Histadrut's court. National strikes in Israel are traditionally on big ticket items like jobs, salaries, pensions and the like, and if push comes to shove it is not entirely clear to all whether Histadrut really wants to go to war and shut down the economy at this time over this particular issue. End comment.

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